



Final Minutes
Endowment Fund Investment Board Regular Meeting
June 22, 2005

A regularly scheduled meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on June 22, 2005. Chairman M. Dean Buffington called the meeting to order at 9:25 a.m. and recognized that a quorum was present.

Member's Present:

M. Dean Buffington
Bill Mitchell
Parker Woodall
Representative Bill Deal
Tom Kealey
John Taylor

Staff Present:

Richelle Sugiyama
Andrew M. Potter
Judy Shock

Members Absent:

Gavin Gee
Senator Brad Little
Vaughn Heinrich

Guests:

Eric Micek, RBC Dain
John Pickett, RBC Dain
Bobby Lawrence, Eide Bailly
Ray Houston, Div of Finance
Larry Schlicht, Div of Finance
Bob Maynard, PERSI

Chairman Buffington announced to the Board, the appointment of new board member, Vaughn Heinrich. Mr. Heinrich was not present at the meeting.

Follow up items from May 10, 2005 board meeting, were presented by Chairman Buffington, in regards to EFIB requesting assistance from PERSI to have Richelle Sugiyama hired as interim Manager of Investments, on a temporary leave status. The letter mentioned in the May 10, 2005 minutes was not submitted.

1. Minutes of the May 10, 2005 meeting: Approved

A motion was made by Parker Woodall, second by Tom Kealey to approve minutes. The motion carried unanimously.

2. RBC Dain Rauscher Performance Reports

John Pickett and Eric Micek, RBC Dain Rauscher, presented the monthly update and performance.

Monthly Update – May

Mr. Pickett indicated that as of May, asset allocations are somewhat out of line. Artisan will be liquidated and \$60m from Russell 1000 growth. Chairman Buffington inquired if Clearwater was being monitored. Mr. Micek indicated that RBC Dain monitors on a daily basis. He added that large cash balances are moved about, with the assistance of EFIB staff

in implementing and making adjustments for a full working equitization. Mr. Kealey asked if a transition manager should be employed. Mr. Pickett added that Northern Trust is providing the assistance. A summary will be presented showing this.

Monthly Performance

Mr. Pickett indicated that there are no real problems with the managers; and no manager changes need to be made.

Judges Retirement System

Mr. Pickett indicated that funds are being monitored and examined. By the end of the week, transition costs will be prepared. Richelle Sugiyama indicated that in conjunction with the transition issues that are forthcoming; she has spoken with Corrie Keller, regarding the approval from the Judges' Board. Mr. Woodall inquired if this record is a rolling 12-month? Mr. Pickett affirmed.

State Insurance Fund Monthly Performance

Ms. Sugiyama said that she spoke to Jim Alcorn, State Insurance Fund, in regards to the EFIB 3% target cash allocation. We have a 3% target allocation to cash; however, through discussions with Mr. Alcorn, it was noted that they will hold cash (approximately 3%) and that they expect us to invest. Mr. Woodall understood that this was happening. Mr. Kealey asked if there is \$12 million set aside for this. Ms. Sugiyama indicated that through discussions with RBC Dain and Mr. Alcorn, the following items were brought up: (1) Mr. Alcorn believed the basis for the 3% target allocation to cash may have been to provide the EFIB staff with sufficient time to invest the cash; (2) the SIF expects the EFIB to invest, and (3) that the index fund and I shares provide reasonable liquidity if the SIF has immediate cash requirements. All parties have agreed that this is probably an oversight and that the investment policy, particularly the target allocation, should be reviewed.

Daily Performance Reports

Ms. Sugiyama indicated that gaining access to Northern Trust was difficult during the interim period. RBC Dain was asked to pick up the daily reporting to ensure nothing fell through the cracks. Mr. Pickett congratulated Mr. Micek for doing a great job and will provide the Board with a performance on a daily basis, if requested. Mr. Micek said that he has been working with EFIB staff to ensure they are providing all of the information as requested. Mr. Micek added that if the Board would like to receive performance notifications, he will send these via e-mail. The Board agreed that they did not want to receive the daily reports.

3. **RBC Dain Rauscher - Services**

Mr. Pickett brought to the attention of the Board, the memo regarding "Temporary Fee Supplement". Chairman Buffington noted that the memo is not a surprise; and Mr. Woodall acknowledged the need for the additional fees. Chairman Buffington inquired if this supplemental fee were to be approved, will RBC's responsibility regarding the additional duties assumed end when a new Manager of Investment is hired? Mr. Pickett responded that the duties can cease, or they can continue as long as necessary. Chairman Buffington is pleased with the performance and that Ms. Sugiyama is doing a great job with the daily performance reporting.

A motion was made by Mr. Woodall and seconded by Mr. Mitchell to approve the monthly supplement costs of \$5000. The motion carried unanimously.

4. Lands Update

Ms. Sugiyama presented an update from yesterday's Land Board meeting (memo showing the table summarizing the Dept. of Lands methodology). The recommendation to use the Lands expenses as calculated by Lands and based on the actual expenses incurred by each beneficiary on the land they own (as opposed to a pro rata portion of Lands expenses, as EFIB calculated it) was approved by the Land board. Ms. Sugiyama indicated this inconsistency was identified as staff worked with Lands to figure out the increased expenses to the Cap Perm Fund. She further indicated that this would not have a negative impact on distribution for the upcoming fiscal year. Mr. Schlict (DFM) and Mr. Houston (LSO) agreed. Mr. Kealey asked if this only happened this fiscal year and how it was handled in previous years. Ms. Sugiyama noted that in previous years, the EFIB has always calculated Lands expenses based on a pro rata portion of the total Lands expenses. However, this year, as staff met with IDL to review the Capitol Permanent Fund expenses, they identified this inconsistency. Mr. Woodall asked that this be reconciled.

Ms. Sugiyama further noted that the Land Board requested that the EFIB meet prior to the Land Board meetings so that all recommendations are first formally recommended and approved by the EFIB before they are brought forward to the Land Board for further consideration. Ms. Sugiyama agreed and noted for the Board's information that this was an issue that came up after this Board meeting was set and that going forward, if these situations arise, special meetings may be called.

A motion was made by Mr. Woodall and seconded by Mr. Mitchell to approve the methodology recommendation. The motion carried unanimously.

FY2007 Spending Policy for PS and Pooled Distributions

Ms. Sugiyama welcomed Larry Schlict (DFM) and Ray Houston (LSO) to our meeting. She indicated that state agencies have to submit their budget to DFM by September 1 of each year for the following fiscal year (The FY 2007 budget must be submitted by 09/01/05). She stated that EFIB needs to nail down the payout policy and related distribution amounts to transmit to the various agencies. Ms. Sugiyama asked what the payout policy should be. The Attorney General's office ruled in January, that each of the pooled reserved funds should be looked at separately. The Lands Department finds it difficult to value lands. She said that Deputy Attorney General Weaver agreed. Mr. Maynard said that a discussion with Matt Haertzen, regarding the 5% payout to be phased over a period of time. Ms. Sugiyama indicated that presently the payout is at 6%. Mr. Schlict reported that FY06 payout is: 4% for Public Schools; 5% for Pooled. He indicated that the Lands receipts were up; and possibly could be at 5%. The payout was approved at 5% for Public Schools and 6% for Pooled. Chairman Buffington indicated that he understood that the payout was at 7.5% (at the time of meeting with Governor Kempthorne). Mr. Taylor inquired if it was appropriate to take action regarding this issue today? Ms. Sugiyama answered that the Lands Department had asked that EFIB would meet before the scheduled Land Board meeting on August 9, 2005. Discussion was made to move up the Endowment Fund board meetings prior to future Land Board meetings. Ms. Sugiyama responded that if there be decisions which will affect the Land Board meetings, it would be good to meet prior to these scheduled meetings. Ms. Sugiyama indicated that the FY06 spending policy is in place and that the payout ratio is attainable. An analysis for FY07 is currently in progress. Mr. Taylor asked how long this analysis will take. Ms. Sugiyama indicated that Staff is currently working on it and they are also meeting with Kathy Opp regarding the Lands Department on these figures. Deputy Attorney General Weaver arrived at 10:05 a.m. Mr. Kealey recommended that we do the analysis with or without a meeting; possibly a conference call. Chairman Buffington agreed that a conference call with the board members should be made before the Land Board

meeting August 9, 2005. He indicated that the first week of August, the Board should establish a conference call for everyone to be updated on this policy. Mr. Woodall asked if the rules have been checked to support this. Ms. Sugiyama is working on this with the Attorney General's office. Chairman Buffington said that official action will not be taken until the teleconference meeting. He asked that the materials for this meeting be mailed or e-mailed, and for Judy Shock to set up a teleconference call.

Capitol Permanent Fund

Mr. Potter indicated that this year, the Cap Perm Fund became a part of the pooled accounts. Prior to this year, it was a part of the Treasurer's office, and that the Fund paid their expenses. The Fund is billed at the end of the fiscal year, and will reimburse the Endowment Fund. The Lands Department expenses are paid by endowments. He indicated that this will change slightly from what has been billed to the Cap Perm Fund – in the past, Department of Lands had been responsible for this. Lands Department was concerned about the billing they were to receive from EFIB. They have paid \$24,000 from the \$104,000 amount. The Lands Department is planning to pay this. Ms. Sugiyama indicated that the Cap Perm Fund did not receive some bills in a timely manner, and that was the basis for the delay in payment and backup of expenses to be paid to IDL. She said that for the FY05, IDL will have to pay back to EFIB what Cap Perm owes, and IDL will keep these amounts as an accounts receivables on their books. Going forward, IDL and EFIB have agreed that the EFIB will bill Cap Perm Fund to avoid double billings. She said that both she and Mr. Potter will be meeting with the Cap Perm Fund and Lands Department to ensure who is billing and the frequency of payment. Chairman Buffington inquired who the contacts are with the Cap Perm Fund. Ms. Sugiyama answered that Rick Thompson and Connie Smith are on staff and Carl Bianchi is one of the Board members, who worked with EFIB staff previously. Chairman Buffington said that if he needs to speak with Mr. Bianchi, he would be happy to do so. In closing, no action is necessary at this time.

5. **EFIB Policies**

Public Information, News and Media Policies

Deputy Attorney General Weaver introduced the drafted policy. Mr. Kealey asked that any media issues regarding the Manager of Investment position be handled by the Board chairman. He requested that the minutes and draft minutes be deleted from the website. He also requested that a calendar agenda be added on the website. Mr. Woodall made a motion to this effect and Mr. Kealey seconded. Motion carried unanimously.

GASB 40

Bobby Lawrence, of Eide Bailly, provided an update of the audit. A draft version including securities lending and commission recapture was provided. Ms. Sugiyama reported that this policy explains how the EFIB monitors those risks. She stated that a similar policy has been adopted at PERSI. Mr. Lawrence was satisfied with this. He indicated that reviews are reviewed of the 5% concentration risk and that it cannot go above the 5% risk. He said that measures are in place if the 5% is exceeded. Mr. Kealey asked if the 5% amount is broad enough. Ms. Sugiyama answered that it is not meant to hinder the manager, but rather as a flag to staff to look further; that if it is too broad, nothing will surface.

A motion was made by Mr. Taylor requesting Eide Bailly identify the risks, when needed and approve the provided information from the policy with no change. Mr. Woodall seconded and the motion was carried unanimously.

6. **Audit Update – Eide Bailly**

Results of the Agreed Upon Procedures

Mr. Lawrence notified the board, the audit was on schedule. Chairman Buffington asked for Judy to mail copies to missing board members. Mr. Mitchell inquired of Eide Bailly regarding the spending for 2003-2005. Chairman Buffington acknowledged appreciation to Eide Bailly and Bobby Lawrence for providing the audit information.

Meeting with Attorney General's Office concerning amortization of premiums and discounts
Conclusion was not made at this time.

Legislative transfers to eliminate negative fund balances in accordance with GASB 33
At this time, no vehicle allowing this to be brought in – negative balance is shown in the footnote.

7. **EFIB Website**

Ms. Sugiyama indicated that Judy Shock is working on website and getting it up to speed with changes: deleting the minutes and changing the calendar dates.

Other Issues:

Mr. Taylor spoke of the upcoming Manager of Investment resumes to be received. He acknowledged appreciation to Pam and Rhonda from Division of Human Resources, for their assistance. He indicated that advertising has been initiated through many publications, such as the Wall Street Journal. The closing date for application is set at June 24, 2005. At this time, 31 resumes have been received; most likely a total of 45 are expected to apply. He will meet with Rhonda this afternoon to finalize the questions and timeline. DHR will take the applicants and grade the resumes by qualifications and experience. He indicated that interviews will be conducted in July, narrowing the field to 3-4 candidates who will meet with the board onsite. Judy will coordinate the appointments. He hopes to have the final candidates meet with the board on August 18, 2005. He said that he will invite representative from the Judges, SIF, and Lands Department to be a part of the interviewing process.

Chairman Buffington said that he has given approval for the former Manager of Investment to travel to conferences prior – via email. He asked the board if he should handle these requests as he has done in the past. He indicated that he has received emails for upcoming conferences for Ms. Sugiyama and Ms. Weaver. Mr. Kealey asked how Mr. Maynard obtains approval for travel and conferences. Mr. Maynard indicated that PERSI's director and sometimes PERSI's Chairman of the Board approves. No board action was given and Chairman Buffington will continue to authorize these requests.

Mr. Woodall reiterated that a teleconference call will be made prior to the August 9th Land Board meeting regarding the spending policy; and that at the August 18th board meeting, no managers attend (the meeting date was previously arranged as a manager conference). Mr. Taylor was concerned that enough time would be available for the Manager of Investment candidates. Chairman Buffington indicated that the board meeting will begin at 9:00 a.m., and asked that a response would be given by all board members.
The board took a break at 10:55 a.m.

8. **Executive Session**

Idaho Code §67-2345 authorizes the Board to enter into executive session for the purpose of discussing possible legal actions § 67-2345(1) (f) or personnel issues §67-2345 (1) (b) or §67-2345 (1) (d) records that are exempt from disclosure. Any resulting action will take place when the Board resolves back into regular session. Those issues being before the Board, Mr. Taylor moved to enter Executive Session, second by Mr. Woodall, the roll call vote was as follows:

Chairman Buffington – Aye

Mr. Bill Mitchell – Aye

Mr. Tom Kealey – Aye

Mr. Parker Woodall – Aye

Mr. John Taylor – Aye

Mr. Bill Deal – Aye

The motion carried unanimously and the Board entered executive session at 11:00 a.m. At 11:47 a.m., Mr. Woodall moved and Mr. Kealey seconded to convene to regular sessions. Motion was carried unanimously.

9. **Next Meeting Date –August 18, 2005**

The next regular meeting of the Board will be on August 18, 2005 at the EFIB office.

10. **Adjournment**

There being no further business to come before the Board, by motion duly made by Mr. Kealey, seconded by Mr. Mitchell, and unanimously approved by members present, the meeting adjourned at 11:59 a.m.